



Facility Financing 101

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Agenda

- Who Is Self-Help?
- Sources of Capital
- Calculating Borrowing Capacity
- How Do Lenders Evaluate Potential Borrowers?
- Loan Process and Timeline
- Construction Planning



Who is Self-Help?

- Non-profit CDFI founded in 1980
- Mission: **Creating and protecting ownership and economic opportunity for people of color, women, rural residents and low-wealth families and communities.**
- Over \$100 million lent to charter schools nationwide since 1997



How is Self-Help different?

- Mission (not commission) driven
- Flexible loan terms
- In-depth technical assistance
- Advocacy



Sources of Capital

- Lender
 - Traditional Bank
 - CDFI – Community Development Financial Institution
- Foundation and Government Grants
- Fundraising
 - Capital Campaign
 - Parents
 - Board
- Bonds
 - Self-Help does not offer



Government Grants and Programs

- US Dept of Ed – Credit Enhancement for Charter School Facilities
- USDA grants and loans
 - For rural charter schools
- State-issued start-up grants
- Historic Preservation Tax Incentive
- New Markets Tax Credit



Calculating Borrowing Capacity

- Occupancy costs should not exceed 15 % of revenue
 - Total occupancy includes mortgage payment, janitors, utilities, maintenance and upkeep of the building.
 - Note: According to one national survey of charters, 20-25% debt/revenue is not unusual
- Debt Coverage Ratio = Total Cash Flow/Total Cost of Debt Service ≥ 1.20
- “6-Cs” of Charter Financing
 - Character, Cash flow or Capacity, Collateral, Competition, and Credit, Cash Equity

Costs of Debt

Lending Institutions	Traditional Bank	Community Development Lender	Bonds
Loan Terms	10-15 years	Up to 25 years	Up to 30 years
Loan-to-Value	75 - 80%	80 - 90% (sometimes higher)	Up to 100% (sometimes higher)
Fees (includes closing costs and attorneys)	1 - 3%	1 - 2%	8 - 10%
Interest rates	7 - 10%	5 - 8%	4 - 7%



How do lenders evaluate potential borrowers?

- Organizational Capacity
- Financial Management and Capacity
- Academic Program and Performance



How do lenders assess organizational capacity?



- Site visits and interviews
- Reference checks
- Comprehensive review of audits, resumes, policies, and procedures
- Credit checks on school, leadership, and board members
- “Performance” of school during the loan process

Why is a good relationship with your authorizer helpful ?

- Authorizers can serve as references for potential lenders.
- Authorizers can provide access to public documents, including information not available online through open records requests.
- Authorizers are key in the charter renewal process.

What charter schools need to demonstrate...



Governance:

- Clearly defined roles and responsibilities
Authorizer ↔ Board ↔ Management
- Orderly Documents, plans, and controls
 - 501(c)3 letter, charter, by-laws, audits, policies, selling plan, security, etc.
- Committed Community-Centric Board
 - Well defined roles and responsibilities
 - Diverse Skill Sets: Attorney, Appraiser, Accountant, General Contractor, Engineer, Realtor
- Succession Planning
- Distribution of Power
- No Conflicts of Interest

Planning required for Start-up School

- Start by leasing, worst case at market rent, favorable rent, no rent
- Run school like a business, financially-speaking
- Operate with surplus and build cash reserves
- Annual increases in enrollment
- Autonomous control of school
- Start planning for the future in the first year of operation: start searching for good real estate, existing facilities, speak with school district, county, individuals, have a good idea of size needs, etc.
- By start of third year, ought to have a plan for where, when, how, who, etc.
- Much of this can apply to seasoned schools over three years

What charter schools need to demonstrate . . .



Academic results:

- “C” or better on state tests
 - Consistent improvement
- NCLB goals met
- Increasing (or stabilized) enrollment and waiting lists

What charter schools need to demonstrate . . .

Financial Control and Sustainability:

- Credit and Financial History
 - Report, tax returns, audited financial statements, year-to-date results, projections
- Cash Flow
 - Positive with increasing enrollment
- Collateral
 - Value of school property
 - May need to fill gap (other real estate, cash pledges in CDs, equipment, personal guarantees, etc)
- Cash Equity
 - Standard down-payment is 20% or more (community development lenders can be flexible)



What charter schools need to demonstrate...

Project Evaluation/Management:

- Internal Capacity
 - Key Use of Board
- Professional Capacity
- Realistic Timeline
 - Pre-Construction (e.g. need to buy property)
 - Construction Process, quotes from general contractors
- Realistic Budget
 - Minimum 10% contingency



Red Flags . . .



- High staff/board turnover
- Lawsuits, charter violations, etc.
- “Founder-itis”
- Negative press
- Low or variable enrollment
- Poor academic and/or financial performance
- Low staff morale
- No relationship with the community
- Conflicts of interest on boards and in management

Success Indicators . . .

- Strong financial performance
- Realistic projections
- Flexibility of staff/child ratios
- No more than 15% budget spent on occupancy
- Fundraising efforts
- Not administratively heavy
- Excellent academic design and performance



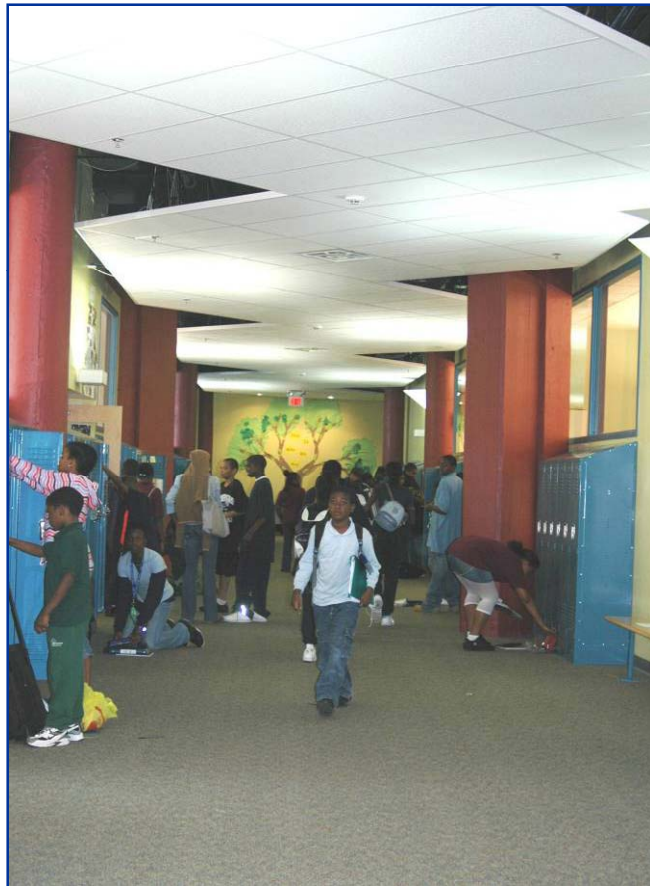
Loan Process and Timeline . . .

- **Pre-Application**

- 3 months to 3 years
- Build equity for investment (min 10%)
- Acquire construction project capacity by retaining qualified (bonded) professionals
- Plan, plan, plan
 - Write business plan
 - Assemble financial, academic, and enrollment records



Loan Process and Timeline . . .



- **Application and Contact**
 - 4 weeks
- **Approval/Commitment Letter**
 - 4 weeks
- **Closing**
 - 3 weeks to 6+ months
- **Post-Closing**
 - multi-year relationship

Construction Planning . . .

- **Identify Needs**
 - Form Facility Committee
 - Appoint 1 staff expert
- **Pre-Development**
 - Consult with outside expert
 - Beware of free services
- **Construction**
 - Regular site visits
 - Move-in plan
 - Maintenance plan
- **Post-Development**
 - Licensing



How do I contact Self-Help?

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